Alcohol and Tobacco Tax and Trade Bureau

FY 2016
President’s Budget

February 2, 2015
Table of Contents

Section 1 – Purpose ....................................................................................................................... 3
  1A – Mission Statement ........................................................................................................... 3
  1.1 – Appropriations Detail Table ....................................................................................... 3
  1B – Vision, Priorities and Context ....................................................................................... 3

Section 2 – Budget Adjustments and Appropriation Language ............................................. 10
  2.1 – Budget Adjustments Table ....................................................................................... 10
  2A – Budget Increases and Decreases Description ........................................................... 10
  2.2 – Operating Levels Table ........................................................................................... 13
  2B – Appropriations Language and Explanation of Changes ............................................ 14
  2C – Legislative Proposals ............................................................................................... 14

Section 3 – Budget and Performance Plan ............................................................................... 15
  3A – Collect the Revenue ................................................................................................... 15
  3.1.1 – Collect the Revenue Budget and Performance Plan ........................................... 19
  3B – Protect the Public .................................................................................................... 20
  3.1.2 – Protect the Public Budget and Performance Plan ............................................ 26

Section 4 – Supplemental Information ...................................................................................... 27
  4A – Summary of Capital Investments ............................................................................. 27
Section 1 – Purpose

1A – Mission Statement
To collect the taxes on alcohol, tobacco, firearms and ammunition; protect the consumer by ensuring the integrity of alcohol products; and prevent unfair and unlawful market activity for alcohol and tobacco products.

1.1 – Appropriations Detail Table

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriated Resources</td>
<td>FTE</td>
<td>AMOUNT</td>
<td>FTE</td>
<td>AMOUNT</td>
</tr>
<tr>
<td>Collect the Revenue</td>
<td>242</td>
<td>51,721</td>
<td>242</td>
<td>52,721</td>
</tr>
<tr>
<td>Protect the Public</td>
<td>231</td>
<td>47,279</td>
<td>231</td>
<td>47,279</td>
</tr>
<tr>
<td>Subtotal New Appropriated Resources</td>
<td>473</td>
<td>$99,000</td>
<td>473</td>
<td>$100,000</td>
</tr>
<tr>
<td>Other Resources:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reimbursables</td>
<td>10</td>
<td>6,742</td>
<td>10</td>
<td>7,022</td>
</tr>
<tr>
<td>Transfers In/Out – Program Integrity Cap Adjustment</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>35</td>
</tr>
<tr>
<td>Transfers In/Out – TEOAF Super Surplus Fund</td>
<td>0</td>
<td>900</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Subtotal Other Resources</td>
<td>10</td>
<td>$7,642</td>
<td>10</td>
<td>$7,022</td>
</tr>
<tr>
<td>Total Budgetary Resources</td>
<td>483</td>
<td>$106,642</td>
<td>483</td>
<td>$107,022</td>
</tr>
</tbody>
</table>

Note: The FY 2016 Request proposes a transfer of funds in the amount of $5 million from the Internal Revenue Service’s program integrity cap adjustment to TTB for tax enforcement and compliance.

1B – Vision, Priorities and Context
TTB is responsible for the administration and enforcement of those sections of the Internal Revenue Code of 1986 (IRC) associated with the collection of excise taxes on alcohol, tobacco, firearms, and ammunition, and the Federal Alcohol Administration (FAA) Act, which provides for the regulation of the alcohol beverage industry for the protection of U.S. consumers. The TTB mission is carried out according to two principal strategic goals that, briefly stated, are: collect the revenue and protect the public. TTB’s strategic goal to collect the revenue is to ensure that industry remits the proper federal tax on alcohol, tobacco, firearms, and ammunition products. This TTB goal supports the Treasury’s strategic goal to fairly and effectively reform and modernize federal financial management, accounting, and tax systems and the strategic objective to pursue tax reform and improve the execution of the tax code. TTB’s strategic goal to protect the public is to ensure that alcohol and tobacco industry operators meet federal permit qualification requirements and alcohol beverage products comply with federal production, labeling, and marketing requirements. This TTB goal supports the Treasury’s strategic goal to promote domestic economic growth and stability and the strategic objective to facilitate commerce by providing trusted and secure U.S. currency, products, and services for use by the public. Various strategies and activities under these two TTB strategic goals contribute to the Treasury’s strategic goal of creating a 21st-century approach to government.

In Fiscal Year (FY) 2016, TTB will invest its resources in program activities that provide the greatest assurance that these industries are operating in compliance with tax and regulatory
requirements, in the interest of collecting the excise taxes due and ensuring fair and lawful market activity. Facilitating voluntary compliance remains a priority and, to this end, TTB will enhance its guidance related to federal alcohol, tobacco, firearms, and ammunition laws and regulations, and explore diversifying its delivery methods to better reach the business community it regulates. TTB will continue its efforts to verify compliant operations and proper tax payment through its audit and investigation programs, and will employ sophisticated risk modeling to target high-risk activity, for the most effective and efficient use of enforcement resources. Enforcing the tax code also requires that TTB address and deter the illicit activity present in the marketplace. Failure to address illicit trade not only deprives governments of revenue, but also gives non-compliant actors an unfair competitive advantage over their lawful counterparts. Specifically, in FY 2016, TTB will deploy joint forensic audit and investigation teams to detect and pursue tax evasion and other fraudulent activity in the alcohol and tobacco trade, with TTB agents initiating criminal investigations and referring cases for prosecution as appropriate. Under the proposed program integrity cap adjustment, TTB will expand its tax enforcement initiatives, addressing identified diversion schemes and using advanced analytics to detect concealed unlawful activity that might otherwise appear legitimate.

TTB will also focus on enabling the electronic filing of all required submissions so that the bureau can improve its business results in the key service areas that facilitate compliant trade and more efficiently and effectively enforce tax and regulatory compliance. Strong growth in the number of alcohol producers has increased demand for TTB to timely qualify applicants for a federal permit and issue approvals for alcohol beverage formulas and labels. TTB is improving its e-Gov systems, streamlining its internal processes, and updating outmoded policies to avoid degradation to the level of service provided to these mainly small business entrepreneurs. In FY 2016, to keep pace with changes in industry and technology, TTB will prepare to release the upgraded Permits Online filing solution and continue its efforts to modernize the federal alcohol beverage labeling program through updated regulations and policy guidance. The FY 2016 Budget allows TTB to increase automation in its labeling program through a combination of technology enhancements and data-driven enforcement techniques to address the high volume of formula submissions and alcohol beverage label applications. TTB’s review of product information keeps American consumers safe and industry members operating on a level playing field; however, significant program changes are necessary to provide a long-term solution to current processing delays that may negatively impact businesses, which must have label approval prior to bottling or introducing their products into domestic commerce.

**FY 2016 Priorities**

- Collect more than $22 billion in annual excise tax revenues due to the federal government;
- Complete audits and investigations of TTB taxpayers based upon risk and random selection to ensure lawful operations and tax compliance;
- Detect and address criminal diversion activity related to alcohol and tobacco products to protect U.S. consumers, the federal revenue stream, and fair market activity;
- Pursue regulatory remedies to address enforcement challenges related to tax rate differentials on tobacco products, which have contributed to declining federal revenues;
- Reduce the burden of compliance by improving and promoting electronic filing options for industry members to file required permit, tax, and label submissions;
• Conduct marketplace sampling programs to determine compliance with federal regulations for alcohol beverages and use findings to tailor enforcement and voluntary compliance programs;
• Enhance TTB product safety activities that focus on the integrity and safety of domestic and imported alcohol beverage products;
• Promote U.S. exports by facilitating industry compliance with foreign requirements and by working with foreign regulators to reduce barriers to trade; and
• Strengthen global tax administration structures through work with trading partners and emerging markets to prevent tax loss from illicit trade and improve tax collection outcomes.

Recent Accomplishments
In FY 2014, TTB collected $22.2 billion in excise taxes and other revenues from over 10,500 taxpayers in the alcohol, tobacco, firearms, and ammunition industries. The return on investment for TTB’s tax collection activities was 457:1 for FY 2014. Efforts to streamline regulations to reduce the compliance burden, enhance electronic filing systems, and address inefficiencies in internal processes should contribute to continued positive returns on the investment in TTB. The bureau also developed and employed increasingly sophisticated risk modeling to complete targeted audits and revenue investigations into non-compliance. In FY 2014, these civil enforcement efforts resulted in a total of approximately $62 million in identified tax liabilities. These investigations as well as specific intelligence leads resulted in referrals to TTB’s criminal enforcement program, which have resulted in 30 active criminal investigations that represent more than $269 million in evaded tax liabilities. TTB maintains a 100 percent conviction rate in all completed cases.

In support of the nation’s continued economic growth, TTB processed more than 8,100 original permits, most of which are issued to small businesses. A TTB permit is required before a business can operate in the alcohol and tobacco industries. In addition, TTB processed over 142,400 Certificate of Label Approval (COLA) applications and approximately 14,000 formula approvals. In FY 2014, TTB achieved a 79 percent electronic filing rate for permit applications and 94 percent electronic filing rate for COLA applications. Federal law prohibits the import or domestic bottling of an alcohol beverage without an approved COLA, making this TTB activity a condition of lawful U.S. business operations. TTB also advanced several initiatives to update its labeling program guidance, publishing a ruling to eliminate the formula requirement for certain malt beverage products and making progress on its labeling regulations modernization project to simplify and clarify requirements for industry members. TTB also initiated field investigations of industry members in the areas of permit qualification, consumer complaints, trade practice violations, and product integrity verifications, all of which serve the bureau’s dual mission of revenue collection and consumer protection.

Challenges in FY 2016
Alcohol and Tobacco Diversion
TTB is the sole agency with jurisdiction over federal excise tax evasion in relation to domestic alcohol and tobacco products. The diversion of these products outside of legitimate commercial channels without the payment of taxes due threatens federal revenues, undermines fair competition, and provides a well-established source of funding for criminal enterprises.

---

1 Of the 17,558 TTB permittees whose business operations are subject to federal excise taxes, approximately 10,500 (60 percent) have activity that required them to file a tax return and pay excise tax in FY 2014.
Diversion schemes vary widely and change in response to targeted enforcement efforts. Schemes include the illicit manufacture of taxable product, diversion of non-taxpaid product, and misclassification of imported product to evade tax. The breadth and variety of tax evasion schemes are outlined by the Government Accountability Office (GAO) in its March 2011 report entitled “Illicit Tobacco Various Schemes Are Used to Evade Taxes and Fees” (GAO-11-313).

While our experience and intelligence demonstrates a significant illicit trade in alcohol and tobacco products, accurately measuring the loss in federal tax receipts from alcohol and tobacco diversion is difficult because of the clandestine nature of the activity.\(^2\) However, in any case where the intrinsic value of a product is dwarfed by its tax value, there is incentive to evade the tax to gain an illegal profit. An increased tobacco tax rate of roughly 150 percent for cigarettes under the Children’s Health Insurance Program Reauthorization Act of 2009 (CHIPRA) has served to enhance the potential for illegal gains. Since the inception of TTB’s criminal enforcement program in FY 2011, TTB’s agents have initiated 72 investigations, with a total estimated tax liability of approximately $345 million. TTB has also realized an almost 100 percent acceptance rate for cases presented to U.S. Attorneys for investigation, demonstrating both the strength and magnitude of these cases. Enforcement experience also indicates that there is criminal activity in the alcohol trade, with non-taxpaid product removals, illegal imports, and fraudulent labeling just a few of the schemes used to evade taxes, defraud American consumers, and undermine the legitimate alcohol trade.

In FY 2014, TTB had $2 million in designated funding to continue its criminal enforcement program. The program utilizes the services of criminal enforcement agents on a reimbursable basis from the Internal Revenue Service Criminal Investigation (IRS CI) division. Alcohol and tobacco diversion are long-term tax enforcement challenges, given the high profits to be gained from illegal activity, the relative ease of diversion, and the substantial revenue loss that it represents. This $2 million is included in the FY 2016 base budget request. In FY 2016, TTB proposes a transfer of $5 million in appropriated funds from the IRS’s program integrity cap adjustment for increased TTB tax enforcement and compliance programs to narrow the tax gap in the tobacco and alcohol industries and reduce the deficit through increased revenue collections.

**Operating Environment**

**TTB Tax Collections and the Regulated Industries**

TTB is the third largest tax collection agency in the U.S. government, after the IRS and U.S. Customs and Border Protection (CBP). Annual revenues from the alcohol, tobacco, firearms, and ammunition industries are approximately $22.2 billion.

\(^2\) In February 2010, the Department of the Treasury issued a report to Congress (“Report to Congress on Federal Tax Receipts Lost Due to Illicit Trade and Recommendations for Increased Enforcement”), which included an effort to estimate the amount of federal tax receipts lost as a result of cigarette diversion. The study emphasized the substantial uncertainty surrounding the magnitude of the federal tax receipts lost due to cigarette diversion.
Alcohol Tax Collections
The alcohol beverage industry in the United States accounts for approximately 35 percent of the excise tax revenue that TTB collects. In FY 2014, TTB collected over $7.9 billion in revenue from U.S. wineries, breweries, and distilleries, the same amount collected in the prior year. Industry trade association reports state that the alcohol beverage industry contributes directly or indirectly to the U.S. economy by providing nearly 4 million jobs and roughly $400 – $500 billion in economic activity. While economic forecasts predict continued modest growth in the U.S. alcohol industry as a whole, excise tax collections will likely remain relatively flat due to a number of variables, including increasing volumes in imports and exports, for which CBP collects the tax, and declining sales by volume from the country’s largest breweries, who account for over 90 percent of the beer sold in the U.S. The rapid expansion of new small alcohol beverage producers, including small wineries, breweries, and distilleries, will not entirely offset the declines in sales and tax payments by the large companies because these producers have lower production volumes, and small beer and wine producers are eligible for reduced tax rates based on their production volume. This trend is expected to continue throughout the period of FY 2015 – FY 2016.

Tobacco Tax Collections
In FY 2014, TTB collected nearly $13.6 billion in tobacco tax revenue, a decrease of approximately 6 percent compared to FY 2013 collections. In forecasting tobacco revenue, the Congressional Budget Office predicted that federal collections would decline after peaking in FY 2010 due to the significantly increased tax rates on cigarettes and other tobacco products enacted by CHIPRA. This is consistent with TTB’s actual experience over the last several years. The CHIPRA legislation provided for a tax increase on all tobacco products (except large cigars), cigarette papers, and cigarette tubes, effective April 1, 2009. Higher prices on tobacco products have historically resulted in decreased consumption and increased illicit trade, which indicates that tobacco revenue will continue to decline. Further, recent analysis of tobacco collections has shown significant market shifts for tobacco products since the passage of
CHIPRA. The law introduced large federal excise tax disparities among tobacco products, which created opportunities for tax avoidance and led manufacturers and price sensitive consumers to shift toward lower-taxed products that are interchangeable with their higher taxed counterparts from a consumer consumption perspective. The growing popularity of untaxed products, such as e-cigarettes, may further contribute to declining tobacco revenue. In FY 2016, in response to the dramatic market shifts in pipe and roll-your-own tobacco as reported to TTB by domestic manufacturers, which shifted toward the lower taxed pipe tobacco based on the tax differential and not market forces, TTB will continue its efforts to set forth objective, science-based standards through rulemaking to differentiate these two tobacco products for tax purposes. Further, TTB will continue to act to address the revenue threat posed by the diversion of alcohol and tobacco products by exercising both its civil and criminal tax jurisdiction to support voluntary tax compliance and deter illicit trade.

Firearms and Ammunition Excise Tax (FAET) Collections
TTB also collects the federal excise taxes on firearms and ammunition. These taxes are remitted to the Fish and Wildlife Restoration Fund. This trust fund was established by statute and is overseen by the U.S. Fish and Wildlife Service, which apportions the money to state governments for wildlife restoration and research and hunter education programs. In the past decade, collections have increased from $226 million in FY 2005 to $769 million in FY 2014, an increase of $543 million over the past decade, or a 240 percent growth in tax revenue. Significant revenue shifts occurred between fiscal years 2011 and 2013, with collections increasing nearly 50 percent year-to-year. Historically, the increase in reported tax revenue can be attributed to external factors, such as increased sales, as well as TTB’s enforcement presence, which increases collections and promotes voluntary compliance.

Expansion of U.S. Exports
TTB is actively engaged with the Office of the U.S. Trade Representative (USTR) in facilitating fair and open trade in alcohol beverages to support new opportunities for U.S. businesses in overseas markets. Overseas demand for the products TTB regulates continues to grow, with U.S. exports of all alcohol beverages totaling $3.5 billion in 2013, the most recent full year of data available. In line with increases in overall export volume, U.S. exports of distilled spirits totaled more than $1.4 billion, which represents a 3 percent increase from 2012. Over the same period, U.S. exports of wine increased by 16 percent, to $1.5 billion. Meanwhile, U.S. exports of beer also increased by 16 percent, to $518 million. TTB has undertaken a variety of efforts to directly influence that trend through its partnership with USTR. These include facilitating the reduction of export certification requirements imposed by foreign countries, negotiating trade agreements that facilitate trade and suspend trade barriers, and educating industry on U.S. import and export requirements.

As the U.S. tax and regulatory authority for alcohol beverages, TTB issues certificates for U.S. producers in order for the producers to be able to export their products to many foreign countries. In FY 2014, TTB issued more than 13,000 export certificates for beer, wine, and distilled spirits. Without these certificates, which are only issued by TTB, U.S. producers of alcohol beverages cannot sell their products in certain major markets abroad. In order to facilitate and expedite the issuance of certificates, TTB implemented an enhancement to its Permits Online system to enable the electronic submission of certificate requests. Through its international outreach, TTB
has arranged for the elimination or reduction of certification requirements when able to do so for wine exported to various countries. In FY 2014, for example, TTB launched the one-page consolidated export certificate for wine exports to China, reducing a significant barrier to wine export trade.

In supporting domestic economic growth and stability, TTB works to open burgeoning markets to U.S producers, including member economies of the Asia-Pacific Economic Cooperation forum. Emerging markets commonly issue technical trade barriers, and educating their regulators about the U.S. system will help prevent those countries from issuing technical barriers that impede U.S. exports. TTB also continues to engage with regulators from Canada, China, the European Union, France, Italy, and Mexico, and the new world wine producers of the World Wine Trade Group—all of which offer important export markets for U.S. producers—through its international agreements. These agreements ensure that markets remain open for U.S. businesses and illegal activity in international trade is addressed cooperatively and promptly.

**Human Capital Management – Federal Employee Viewpoint Survey**

Employee satisfaction is critical to a productive workplace. Each year, the Office of Personnel Management administers the Federal Employee Viewpoint Survey to measure the satisfaction of the federal workforce. Based on this survey data, the Partnership for Public Service determines rankings for the Best Places to Work in the Federal Government; in FY 2014, TTB ranked 18th out of 315 sub-component agencies, an improvement compared to the prior year. TTB continues to strive for the highest levels of employee satisfaction, and will use the survey results to develop an action plan to address opportunities for improvement. In the current environment, it is even more critical that TTB recognize outstanding employee performance and provide opportunities for professional development to ensure employee satisfaction and retention. Notably, within the next five years, approximately 46 percent of TTB’s workforce will be eligible to retire; emphasizing the importance of succession planning and training to ensure its workforce has the skills and abilities to meet the mission.
Section 2 – Budget Adjustments and Appropriation Language

2.1 – Budget Adjustments Table

<table>
<thead>
<tr>
<th>Alcohol and Tobacco Tax and Trade Bureau</th>
<th>FTE</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY 2015 Enacted</strong></td>
<td>473</td>
<td>$100,000</td>
</tr>
</tbody>
</table>

Changes to Base:
- Maintaining Current Levels (MCLs): - $1,687
- Pay-Raise - $580
- Pay Annualization - $148
- FERS Contribution Increase - $205
- Non-Pay - $754
- Efficiency Savings:
  - Reduce Infrastructure Footprint - ($248)
  - IT Open Source Project - ($60)
  - Travel and Other Operating Reductions - ($144)
Subtotal Changes to Base - $1,439

Total FY 2016 Base 473 $101,439

Program Changes:
- Program Decreases:
  - Criminal Enforcement Program - ($1,000)
- Program Increases:
  - Improvements to Core Business Applications/Data Analytics 36 $6,000
  - Alcohol and Tobacco Enforcement Program 1 $1,000
Subtotal Changes to Base - $1,439

Total FY 2016 Operating Level 509 $106,439

Program Integrity Cap Adjustment Included in IRS Budget Request - ($5,000)

Total FY 2016 Net Appropriation Request 509 $101,439

2A – Budget Increases and Decreases Description

**Maintaining Current Levels (MCLs)** ................................................................. +$1,687,000 / +0 FTE

**Pay-Raise** +$580,000 / +0 FTE
Funds are requested for the proposed January 2016 pay-raise.

**Pay Annualization** +$148,000 / +0 FTE
Funds are requested for annualization of the January 2015 pay-raise.

**FERS Contribution Increase** +$205,000 / +0 FTE
Funds are requested for increases in agency contributions to the Federal Employees Retirement System (FERS) based on updated actuarial estimates.

**Non-Pay** +$754,000 / +0 FTE
Funds are requested for inflation adjustments in non-labor costs such as travel, contracts, rent, supplies, and equipment.

**Efficiency Savings** .......................................................................................... -$248,000 / +0 FTE

**Reduce Infrastructure Footprint** -$44,000 / +0 FTE
During the past few years, TTB has launched an aggressive telework program. This has enabled TTB to close half of its field offices, with the remaining field offices being vital to TTB’s mission. TTB has also reconfigured and reduced the amount of office space needed to operate its headquarters in Washington, D.C., and the National Revenue Center in Cincinnati. In an
ongoing effort to improve space utilization, TTB has identified additional opportunities to reduce leased space, resulting in additional savings of $44,000.

**IT Open Source Project - $60,000 / +0 FTE**
TTB has launched a project to move its custom IT applications infrastructure from proprietary hardware and software to Open Source software. This initiative will lower the cost of both hardware refresh and maintenance and software licensing and maintenance.

**Travel and Other Operating Reductions - $144,000 / +0 FTE**
TTB will further reduce its operating costs through savings in administrative overhead and its program operations.

**Program Decreases** ...- $1,000,000 / +0 FTE

**Criminal Enforcement Program - $1,000,000 / +0 FTE**
TTB will reduce its Criminal Enforcement Program to the 2014 funding level. The program remains critical to the bureau’s ability to effectively curtail illicit operations and deter others from engaging in diversion activity. This level will enable TTB to continue pursuing and conducting criminal investigations while allowing the bureau to address other crucial investments to maintain a competitive and compliant marketplace for the alcohol beverage industry and facilitate trade in this growing sector of the economy.

**Program Increases** + $6,000,000 / +36 FTE

**Improvements to Core Business Applications/Data Analytics + $1,000,000 / +1 FTE**
TTB is requesting $1 million to invest in its priority project to modernize the alcohol beverage labeling program to streamline and simplify the label submission and approval process. Given TTB’s limited resources and the increased demand for its services from a growing business sector, TTB’s current business model is unsustainable. TTB intends to address these challenges by working towards an automated solution to facilitate compliant label applications so that products may proceed to market more quickly. The requested investment will support: 1) system enhancements to COLAs Online to improve system checks and automate certain review and approval functions, 2) enhanced functionality of COLAs Online and Formulas Online to improve the availability and utility of data for analytics purposes, and 3) advanced risk modeling to support market-based enforcement. The initial investment will allow TTB to complete a comprehensive requirements analysis and begin implementing the business system enhancements for the labeling modernization priority project. This project is one of TTB’s Bureau Priority Goals identified as part of its Balanced Scorecard strategic plan that cut across TTB’s tax enforcement and consumer protection functions, and the annual investment will provide the resources necessary to initiate and sustain the modernization efforts in each of these areas.

**Alcohol and Tobacco Enforcement Program + $5,000,000 / +35 FTE**
The FY 2016 President’s Budget includes a proposal to modify section 251 of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, to provide a program integrity cap adjustment of $5 million for TTB’s tax enforcement and compliance program to narrow the tax gap in the tobacco and alcohol industries and reduce the deficit through increased revenue collections.
This specific funding request is included under the IRS budget, which includes the tax enforcement and compliance program integrity cap adjustment for both the IRS and TTB. The proposed cap adjustment for TTB tax enforcement and compliance activities includes $5 million in new, revenue-producing tax compliance initiatives in FY 2016 and $5 million in additional new initiatives each fiscal year from 2017 through 2020, then remaining at a steady state through FY 2025. TTB will target known points in the supply chain that are susceptible to diversion activity and prioritize forensic audits and investigations of high-risk entities and activity in the alcohol and tobacco industries. Because these new initiatives, as well as current enforcement activities, must be sustained over time in order to maximize their potential taxpayer returns, the total above-base adjustment funding is $193 million over the 10-year period. Over this same time period, these additional investments will generate an estimated $338 million in additional tax revenue over the 10-year period. The amount of revenue generated is driven primarily by an ROI computation that is based on a three-year rolling average from activities specific to TTB enforcement cases. The net savings from these investments is $145 million. In addition to the direct revenue impact from its enforcement efforts, an increased TTB enforcement presence also creates a deterrent effect in the marketplace that ensures tax compliance.

### TTB Excise Tax Enforcement and Compliance Funding Summary

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cap Adjustment, Proposed BBEDCA</strong> (Discretionary Budget Authority)</td>
<td>5</td>
<td>9</td>
<td>14</td>
<td>18</td>
<td>24</td>
<td>193</td>
</tr>
<tr>
<td>Change from Prior Year</td>
<td></td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td>(3)</td>
<td>(8)</td>
<td>(16)</td>
<td>(25)</td>
<td>(35)</td>
<td>(338)</td>
</tr>
<tr>
<td>Change from Prior Year</td>
<td>(5)</td>
<td>(8)</td>
<td>(9)</td>
<td>(10)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net 10-Year Savings</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(145)</td>
</tr>
</tbody>
</table>

*Program Integrity Cap Adjustment Included in IRS Budget Request - $5,000,000 / +0 FTE*

This adjustment ensures that the program increase for TTB’s Alcohol and Tobacco Enforcement Program is reflected only once in the 2016 President’s Budget as part of the IRS’s program integrity cap adjustment.
### 2.2 – Operating Levels Table

Dollars in Thousands

<table>
<thead>
<tr>
<th>Alcohol and Tobacco Tax and Trade Bureau</th>
<th>FY 2014</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>Transfer From IRS</th>
<th>Total Discretionary Appropriation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Object Classification</td>
<td>Actual</td>
<td>Enacted</td>
<td>Request</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11.1 - Full-time permanent</td>
<td>44,545</td>
<td>45,936</td>
<td>46,589</td>
<td>1,527</td>
<td>48,116</td>
</tr>
<tr>
<td>11.5 - Other personnel compensation</td>
<td>580</td>
<td>719</td>
<td>619</td>
<td>50</td>
<td>669</td>
</tr>
<tr>
<td><strong>11.9 - Personnel Compensation (Total)</strong></td>
<td><strong>45,125</strong></td>
<td><strong>46,655</strong></td>
<td><strong>47,208</strong></td>
<td><strong>1,577</strong></td>
<td><strong>48,785</strong></td>
</tr>
<tr>
<td>12.0 - Personnel benefits</td>
<td>13,161</td>
<td>13,574</td>
<td>13,944</td>
<td>336</td>
<td>14,280</td>
</tr>
<tr>
<td>13.0 - Benefits for former personnel</td>
<td>30</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Total Personnel and Compensation Benefits**

| $58,316 | $60,229 | $61,152 | $1,913 | $63,065 |

| 21.0 - Travel and transportation of persons | 1,688 | 1,979 | 1,976 | 280 | 2,256 |
| 22.0 - Transportation of things | 27 | 49 | 50 | 35 | 85 |
| 23.1 - Rental payments to GSA | 4,512 | 4,566 | 4,500 | 0 | 4,500 |
| 23.3 - Communication, utilities, and misc charges | 1,059 | 1,441 | 1,467 | 35 | 1,502 |
| 24.0 - Printing and reproduction | 159 | 257 | 262 | 0 | 262 |
| 25.2 - Other services | 21,627 | 20,782 | 21,890 | 1,000 | 22,890 |
| 25.3 - Other purchases of goods & serv frm Govt accounts | 6,156 | 8,126 | 7,552 | 1,462 | 9,014 |
| 26.0 - Supplies and materials | 400 | 478 | 490 | 35 | 525 |
| 31.0 - Equipment | 3,777 | 2,093 | 2,100 | 240 | 2,340 |
| 32.0 - Land and structures | 895 | 0 | 0 | 0 | 0 |

**Total Non-Personnel**

| 40,300 | 39,771 | 40,287 | 3,087 | 43,374 |

**Subtotal New Appropriated Resources**

| $98,616 | $100,000 | $101,439 | $5,000 | $106,439 |

**Budget Activities:**

- Collect the Revenue | 52,810 | 56,372 | 56,061 | 5,000 | 61,061 |
- Protect the Public | 52,730 | 50,650 | 51,678 | 0 | 51,678 |

**Total Budgetary Resources**

| $105,540 | $107,022 | $107,739 | 5,000 | $112,739 |

**FTE**

| 470 | 483 | 484 | 35 | 519 |
### Appropriations Language and Explanation of Changes

<table>
<thead>
<tr>
<th>Appropriations Language</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEPARTMENT OF THE TREASURY</td>
</tr>
<tr>
<td>ALCOHOL AND TOBACCO TAX AND TRADE BUREAU</td>
</tr>
<tr>
<td>Federal Funds</td>
</tr>
<tr>
<td><strong>SALARIES AND EXPENSES</strong></td>
</tr>
<tr>
<td>For necessary expenses of carrying out section 1111 of the Homeland Security Act of 2002, including hire of passenger motor vehicles, [$100,000,000] $101,439,000; of which not to exceed $6,000 for official reception and representation expenses; not to exceed $50,000 for cooperative research and development programs for laboratory services; and provision of laboratory assistance to State and local agencies with or without reimbursement: Provided, That of the amount appropriated under this heading, [$3,000,000 shall be for the costs of criminal enforcement activities and special law enforcement agents for targeting tobacco smuggling and other criminal diversion activities.] such sums as are necessary shall be available to fully support tax enforcement and compliance activities including tax compliance to address the Federal tax gap, as specified for purposes of Section 251(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. (Department of the Treasury Appropriations Act, 2015.)</td>
</tr>
<tr>
<td><strong>Explanation of Changes</strong></td>
</tr>
<tr>
<td>While the Budget proposes to remove the earmark for agents, $2 million remains in the base for this program.</td>
</tr>
</tbody>
</table>

### Legislative Proposals

TTB does not have any legislative proposals.
Section 3 – Budget and Performance Plan

3A – Collect the Revenue
($52,785,000 from direct appropriations, $3,276,000 from reimbursable resources, and a transfer of $5,000,000):
This budget activity includes all tax processing, verification, enforcement, and outreach efforts related to administering the federal excise taxes due on alcohol and tobacco products, and firearms and ammunition, and supports the Treasury objective to pursue tax reform and improve the execution of the tax code. TTB collects approximately $22 billion in federal tax revenue annually from roughly 10,500 businesses, making TTB the third largest tax collection agency in the federal government. Members of the regulated industries that are subject to excise taxes are distilleries, breweries, bonded wineries, bonded wine cellars, manufacturers of cigarette papers and tubes, manufacturers of tobacco products, and manufacturers and importers of firearms and ammunition. TTB uses an interagency approach in applying its enforcement strategies, which involves cooperation with local, state, federal, and foreign government counterpart agencies to maximize the deterrent impact of enforcement actions. In ensuring a level playing field for all those engaged in the trade of these strictly regulated commodities, TTB also takes appropriate enforcement action to detect and address diversion activity to ensure all products sold in the marketplace are properly taxpaid.

Other Resources (Offsetting Collections/Reimbursables).......................... $ 3,276,000
The offsetting collections include reimbursement for the operating costs of the TTB Puerto Rico field office, which are offset against the roughly $400 million in taxes collected on the alcohol beverage products that are manufactured in Puerto Rico and brought into the United States (cover-over payments); reimbursement by the Community Development Financial Institutions Fund (CDFI) for TTB’s IT services; and a nominal reimbursement from the Bureau of Alcohol, Tobacco, Firearms, and Explosives for laboratory services.

Other Resources (Transfer)........................................................................ $5,000,000
The FY 2016 Budget proposes a transfer of funds in the amount of $5 million from the Internal Revenue Service’s program integrity cap adjustment to TTB for its tax enforcement and compliance program to narrow the tax gap in the tobacco and alcohol industries and reduce the deficit through increased revenue collections.

Description of Performance – Collect the Revenue:
In FY 2014, TTB met one of its two annual targets for the performance measures in the Collect the Revenue budget activity. Taken together, TTB’s measures of the Amount of Revenue Collected per Program Dollar and the Percent of Voluntary Compliance from Large Taxpayers in Filing Payments Timely demonstrate the effectiveness and efficiency with which TTB operates its revenue collection function. These measures also serve as key indicators for Treasury’s goals and objectives to fairly and effectively reform and modernize tax systems and administer the tax code. Achieving positive results for both measures will be supported by the strategic application of technology to streamline internal and external processes and an effective tax enforcement presence that leverages data from a variety of government and commercial sources and interagency partnerships with counterpart enforcement agencies.
Improve Efficiency of Tax Collection
The Amount of Revenue Collected per Program Dollar measure uses annual collections figures and the actual expenditures and obligations for collection activities to quantify the efficiency of the TTB tax collection program. In FY 2014, TTB achieved a return on investment of $457 for every program dollar spent on collection activities, which exceeded its annual performance target of $400. TTB maintained the result achieved in FY 2013 despite decreased collections in FY 2014 through sound fiscal management to reduce spending in both program and operating expenses. Effective enforcement combined with process improvements and streamlining efforts should contribute to continued positive returns on the investment in TTB.

In setting its FY 2016 performance target, TTB examined historical collections trends across each of its regulated commodities, as well as other predictors that influence consumer behaviors. Specifically, significant shifts in consumption patterns, product manufacturing, and trade will continue to impact federal revenues in the years ahead. The CHIPRA tobacco tax changes have resulted in increased tax collections by TTB since their enactment, although the amount of the increase has decreased steadily since FY 2010, the first full fiscal year following CHIPRA. In accounting for these types of marketplace shifts, TTB used Congressional Budget Office revenue projections for tobacco excise tax collections to determine the targeted performance level of 400:1 for fiscal years 2015 – 2016.

Excise Tax and Other Collections by Fiscal Year
Dollars in Thousands

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Alcohol</th>
<th>Tobacco</th>
<th>FAET</th>
<th>SOT</th>
<th>FST</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$7,074,076</td>
<td>$7,409,608</td>
<td>$225,818</td>
<td>$10,190</td>
<td>$9</td>
<td>$141</td>
<td>$14,719,842</td>
</tr>
<tr>
<td>2006</td>
<td>7,182,940</td>
<td>7,350,058</td>
<td>249,578</td>
<td>2,895</td>
<td>638</td>
<td>146</td>
<td>14,786,255</td>
</tr>
<tr>
<td>2007</td>
<td>7,232,138</td>
<td>7,194,081</td>
<td>287,835</td>
<td>2,808</td>
<td>-</td>
<td>32</td>
<td>14,716,894</td>
</tr>
<tr>
<td>2008</td>
<td>7,420,576</td>
<td>6,851,705</td>
<td>312,622</td>
<td>448</td>
<td>-</td>
<td>634</td>
<td>14,585,985</td>
</tr>
<tr>
<td>2009</td>
<td>7,424,292</td>
<td>11,548,504</td>
<td>452,693</td>
<td>272</td>
<td>1,192,375</td>
<td>970</td>
<td>20,619,106</td>
</tr>
<tr>
<td>2010</td>
<td>7,476,576</td>
<td>15,913,479</td>
<td>360,813</td>
<td>300</td>
<td>8,558</td>
<td>180</td>
<td>23,760,119</td>
</tr>
<tr>
<td>2011</td>
<td>7,594,330</td>
<td>15,515,073</td>
<td>344,262</td>
<td>268</td>
<td>5,220</td>
<td>2,257</td>
<td>23,461,410</td>
</tr>
<tr>
<td>2012</td>
<td>7,856,391</td>
<td>15,002,616</td>
<td>514,622</td>
<td>249</td>
<td>5,942</td>
<td>61</td>
<td>23,379,881</td>
</tr>
<tr>
<td>2013</td>
<td>7,851,953</td>
<td>14,321,017</td>
<td>762,836</td>
<td>280</td>
<td>1,521</td>
<td>38</td>
<td>22,937,645</td>
</tr>
<tr>
<td>2014</td>
<td>7,924,951</td>
<td>13,552,711</td>
<td>768,927</td>
<td>332</td>
<td>465</td>
<td>2</td>
<td>22,247,388</td>
</tr>
<tr>
<td>Average</td>
<td>$7,503,844</td>
<td>$11,465,885</td>
<td>$428,001</td>
<td>$1,804</td>
<td>$121,473</td>
<td>$446</td>
<td>$19,521,453</td>
</tr>
</tbody>
</table>

FAET - Firearms and Ammunition Excise Tax  SOT - Special Occupational Tax  FST - Floor Stock Tax  Other - Suspense Account

In FY 2016, to meet its performance target of $400, TTB will continue to improve efficiencies and results in its tax enforcement program by improving its tax verification systems and processes. On the front end, TTB will continue to evaluate and develop options to increase automation in the detection, notification, assessment, and collection of excise taxes due, which will allow TTB to focus its resources on substantive tax analysis. In FY 2016, TTB also intends to complete its review of all operational reports and tax returns required of the businesses it regulates as part of its ongoing effort to streamline its information collections. This initiative has the dual purpose of ensuring that TTB has the information required for effective tax and regulatory enforcement and eliminating unnecessary reporting burdens for U.S. companies.
On the back end, TTB will continue to develop and build risk models based on multiple data sources to identify high-risk activity or taxpayers for audit and investigation. Continuous refinements to these models and sound intelligence enable TTB to efficiently deploy its enforcement resources. A primary focus for TTB tax enforcement continues to be tobacco manufacturers and importers, including any person who for commercial purposes makes available for consumer use a cigarette-making machine and manufacturers and importers of processed tobacco.

Cigarette-making machine operators are considered tobacco product manufacturers under federal law and, thus, must obtain a TTB permit and pay tax. TTB has partnered with States to identify establishments operating cigarette-making machines and has issued letters to retailers and private clubs informing them of their compliance obligations. However, the proliferation of these machines will continue to create enforcement challenges and strain TTB enforcement resources given the number of locations and the relative tax exposure involved in each case. In FY 2016, TTB will continue to engage its law enforcement partners and collect additional intelligence on locations with these machines to identify and collect unpaid tax liabilities from unpermitted manufacturers shirking their tax responsibilities.

TTB will also continue to refine its enforcement techniques to ensure compliant trade in processed tobacco. Transfers of this non-taxpaid tobacco product carry a high revenue risk because the product may be diverted for the illicit manufacturing of cigarettes. In FY 2013, the last complete year of data examined, nearly a quarter of the roughly 831 million pounds of processed tobacco removals reported to TTB (excluding exports) were shipped to entities that do not hold a federal permit with TTB. Although some of these removals represent sales to brokers, who may ultimately sell processed tobacco to a TTB-permitted manufacturer of tobacco products, other removals may be ultimately destined for illicit production. TTB analyzes this information, in conjunction with other intelligence, to select and prioritize its audits and investigations. As a result of these enforcement efforts, TTB has identified through its investigations to date approximately $180 million in unpaid federal excise taxes; some of these cases have resulted in referrals for criminal investigation. TTB will continue these and other priority enforcement initiatives in FY 2016, successfully combining data analytics and advanced field investigative techniques to detect and address tax evasion.

This measure will be affected should the program integrity cap adjustment requested in FY 2016 receive approval. As TTB’s intelligence capabilities and risk modeling have become more sophisticated, the bureau needs additional enforcement resources to act on the leads that these tools generate. The requested cap adjustment would enable TTB to continue its current enforcement activities, and expand its enforcement initiatives to include other points in the supply chain that are at-risk for diversion activity. Exports pose a significant revenue threat because alcohol and tobacco products intended for export may be placed in a customs bonded warehouse, foreign trade zone, or tobacco export warehouse without payment of tax if they are destined for export and not for sale in the U.S. market. Some tax evasion schemes involve diversion of these products into domestic commerce to evade federal excise taxes. According to TTB data, non-taxpaid removals of alcohol and tobacco products from bonded premises for export have an annual excise tax exposure of about $380 million and $1 billion, respectively.
Given additional resources, and in partnership with CBP, TTB could expand its proven intelligence and investigative techniques to make significant inroads into identifying tax evasion schemes that involve the diversion of non-taxpaid products intended for export. TTB anticipates a positive long-term return on investment at the FY 2016 request level; however, the anticipated increases in additional tax collections from the planned enforcement initiatives at the request level will not occur until year three, once new personnel reach full performance levels.

**Increase Voluntary Compliance from Taxpayers**

Fostering voluntary compliance among excise taxpayers is a primary tax administration strategy for TTB. The Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely is a key performance metric that shows the rate of compliance by large taxpayers (i.e., those that pay more than $50,000 in annual taxes) in voluntarily filing their tax payments on or before the scheduled due date. In FY 2014, TTB did not meet its performance target of 91 percent, but achieved a 90 percent rate of compliance from its large taxpayers. Again in FY 2014, performance data indicates that the voluntary compliance rate continues to be lower in the latter half of the year as efforts to enforce tax compliance earlier in the year result in the submission of additional late filings by TTB taxpayers. Improvements in the bureau’s ability to detect non-compliance due to the effective deployment of its automated tool for the identification of late, missing, and erroneous tax returns and operational reports have caused a temporary decrease in performance. As TTB continues to enhance the functionality of this automated tool, TTB expects that its reported compliance rate for timely filings may continue to decline before enforcement efforts lead to demonstrable improvements in industry compliance.

By FY 2016, TTB expects to meet its performance target of a 94 percent voluntary compliance rate for its large taxpayers. During a period of economic recovery, TTB believes that this is an aggressive target for taxpayer compliance and will demonstrate the effectiveness of TTB’s strategies to improve industry understanding of and compliance with federal tax requirements. TTB will employ complementary strategies to meet this performance target that focus on enhancing electronic filing options to enable taxpayers to file complete, accurate, and timely tax returns and payments; improving online guidance, particularly for the large number of newly permitted industry members; and maintaining an enforcement presence to encourage voluntary compliance. Moving forward on all three fronts will ensure that TTB strikes the appropriate balance between supporting new businesses in setting up compliant operations while also focusing on detecting and curtailing high-risk activity that undermines lawful business activity.

Beginning now and continuing in FY 2016, TTB will intensify its efforts to increase the electronic filing rate of its taxpayers. TTB expanded the e-filing program to allow all excise taxpayers to file required tax returns, reports, and payments online through the Pay.gov system, with approximately 24 percent of excise tax returns and 38 percent of operational reports submitted electronically through Pay.gov in FY 2014. As part of a comprehensive strategy to promote e-filing by TTB taxpayers, TTB plans to address through rulemaking a primary hindrance for industry members in using Pay.gov by allowing credit card payments. This enhancement would also address a timing issue that requires those who file electronically to remit tax payments early. TTB is partnering with the Bureau of the Fiscal Service in this effort, which will require both system changes and rulemaking to implement.
The FY 2016 request will also support online enhancements to improve guidance, transparency, and collaboration between TTB and industry. Given the increase in new industry members, TTB will provide online training to ensure that these taxpayers understand and are able to adhere to complex federal tax and regulatory requirements. These activities will promote compliance across the regulated industries and support TTB’s achievement of its performance target.

As an identifiable enforcement presence is a well-established driver of compliance rates, TTB expects to achieve higher rates of voluntary compliance in FY 2016, which provides funding for the continuation and expansion of the TTB criminal enforcement program. The FY 2016 request includes a $5 million transfer from the IRS program integrity cap adjustment to expand TTB enforcement initiatives through additional auditors, investigators, special agents, and data scientists, which together comprise a complete tax enforcement program.

3.1.1 – Collect the Revenue Budget and Performance Plan

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriated Resources</td>
<td>$50,524</td>
<td>$53,000</td>
<td>$50,399</td>
<td>$50,939</td>
<td>$48,927</td>
<td>$51,721</td>
<td>$52,721</td>
<td>$52,785</td>
</tr>
<tr>
<td>Reimbursable Resources</td>
<td>$1,898</td>
<td>$2,117</td>
<td>$1,979</td>
<td>$2,464</td>
<td>$3,277</td>
<td>$3,506</td>
<td>$3,651</td>
<td>$3,276</td>
</tr>
<tr>
<td>Appropriations Transferred from IRS Program Integrity Cap Adjustment</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$5,000</td>
</tr>
<tr>
<td>Transfer from TEOAF-Super Surplus Fund</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$468</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Budget Activity Total</td>
<td>$52,422</td>
<td>$55,117</td>
<td>$52,378</td>
<td>$53,403</td>
<td>$52,204</td>
<td>$55,695</td>
<td>$56,372</td>
<td>$61,061</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Measure</th>
<th>FY 2009 Actual</th>
<th>FY 2010 Actual</th>
<th>FY 2011 Actual</th>
<th>FY 2012 Actual</th>
<th>FY 2013 Actual</th>
<th>FY 2014 Target</th>
<th>FY 2015 Target</th>
<th>FY 2016 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of Revenue Collected Per Program Dollar</td>
<td>427.0</td>
<td>478.0</td>
<td>468.0</td>
<td>449.0</td>
<td>457.0</td>
<td>457.0</td>
<td>400.0</td>
<td>400.0</td>
</tr>
<tr>
<td>Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely (In Terms of Revenue)</td>
<td>94.0</td>
<td>94.0</td>
<td>95.0</td>
<td>92.0</td>
<td>92.0</td>
<td>90.0</td>
<td>92.0</td>
<td>94.0</td>
</tr>
</tbody>
</table>

Key: DISC - Discontinued and B - Baseline
3B – Protect the Public
($48,654,000 from direct appropriations, and $3,024,000 from reimbursable resources):
This budget activity funds the programs that ensure the integrity of the products and industry members in the marketplace; promote compliance with federal laws and regulations by the nearly 72,000 businesses that TTB regulates; facilitate fair and lawful commercial trade in the alcohol and tobacco commodities; and provide full and accurate alcohol beverage product information to the public as a means to prevent consumer deception. These activities support Treasury’s goal of domestic economic growth and stability and the objective to facilitate commerce by providing trusted and secure U.S. currency, products, and services for use by the public.

Other Resources (Offsetting Collections/Reimbursables)........................................ $ 3,024,000
The offsetting collections include reimbursement for the operating costs of the TTB Puerto Rico field office, which are offset against the roughly $400 million in taxes collected on the alcohol beverage products that are manufactured in Puerto Rico and brought into the United States (cover-over payments); reimbursement by the Community Development Financial Institutions Fund (CDFI) for TTB’s IT services; and a nominal reimbursement from the Bureau of Alcohol, Tobacco, Firearms, and Explosives for laboratory services.

Description of Performance – Protect the Public:
In FY 2014, TTB met one of its three annual targets for the current performance measures under its Protect the Public mission. TTB reports on its success in meeting the Department’s objective to facilitate lawful commerce and TTB’s goal to ensure consumer protection through three principal performance measures, which indicate how timely the bureau is in issuing permits to qualified alcohol and tobacco businesses; how effective TTB is in deterring the illicit importation of tobacco products by non-permitted entities, and the efficiency of the bureau’s alcohol beverage label application processing activity. Taken together, these measures and their associated activities reflect the priorities of a service-oriented organization that applies technology to the greatest extent to perform its consumer protection role and to ensure that commerce is fair, lawful, and open.

In FY 2015 and FY 2016, TTB is revising the performance measures for this core mission area to increase their utility as management tools and reflect a renewed focus on “voice of the customer” feedback. The new measures will help TTB to monitor the degree to which it is meeting the service standards it establishes for permit, label, and formula applications, the impact that electronic filing initiatives are having on improved service delivery, and the level of satisfaction that new industry members have with TTB’s permitting process. TTB’s strategies to achieve its performance targets for these measures include a combination of streamlining its internal procedures, implementing enhancements to its online filing systems, and publishing clear guidance to industry members.

Improve Efficiency and Effectiveness of Permitting Process
TTB protects consumers by screening permit applicants to ensure only qualified persons engage in operations in the alcohol, tobacco, firearms, and ammunition industries. For this purpose, in FY 2014, TTB processed approximately 8,100 original and 17,000 amended permits, using risk analysis to perform investigations into high-risk applicants to meet TTB’s business integrity
TTB also monitors its timeliness in processing permit applications through its measure of the Average Number of Days to Process an Original Permit Application for a New Alcohol or Tobacco Business. Undue delays in permit application processing impede domestic economic growth, primarily in the small business sector, as taxable commodities, such as wine, beer, or spirits products, cannot be lawfully produced without a federal permit from TTB. TTB targeted a 75-day turnaround time for original permit applications in FY 2014. TTB’s average processing time was 84 days in FY 2014, with the shortfall attributable in part to lengthy processing times of more than 100 days in the first quarter due to the lapse in appropriations.

In FY 2014, TTB will discontinue this measure and replace it with a measure of the Percentage of Permit Applications Processed within Service Standards. Rather than reporting an average processing time that may or may not represent the typical customer experience, TTB will instead monitor how many of its customers are receiving service levels that fall within the communicated standards. As businesses rely on accurate information related to TTB service delivery in their operational planning, this measure will provide important data related to a key outcome for TTB and its stakeholders. For this measure, TTB will continue to establish an annual service standard based on anticipated workload volume and resources, and will calculate the percentage of applications that TTB processes within this service standard. In FY 2014, TTB met its 75-day service standard for original permits 58 percent of the time, an improvement compared to the prior year when TTB met its 65-day service standard just 50 percent of the time. This positive performance trend is largely attributable to the adjusted service standard in FY 2014, as the workload challenges and resource constraints that began under sequestration remain. Using the same service standard of 75 days, TTB intends to meet its FY 2016 performance target of 85 percent for timely processed permit applications through a combination of industry outreach to promote electronic filing, streamlining its internal procedures, and ongoing system enhancements.

Electronic filing enables TTB to more efficiently process applications. According to its measure of the Percent of Electronically Filed Permit Applications, which tracks the e-filing rate for new business applications, TTB has made substantial progress in a short time, with 79 percent of permit applications received via Permits Online in FY 2014. To meet its FY 2016 target of 85 percent, TTB will continue to promote use of Permits Online by all permit applicants, including through webinars and online training modules.

Even as e-filing rates increase, however, TTB has not experienced a commensurate reduction in processing times for permits due, in part, to the high volume of applications. Over the past several years, the number of new permit applications has increased in line with rapid industry growth, making it difficult to maintain service within current resources. Between 2010 and 2014, the number of original permit applications received has increased nearly 30 percent, primarily due to growth in the small beverage alcohol producers and alcohol wholesalers segments.

To realize improvements to service delivery, TTB is engaged in a priority project to facilitate electronic filing for all industry members. In FY 2014, as part of this multi-year endeavor, TTB focused on improvements to the Permits Online system and the internal processes in its business qualification program. In FY 2014, TTB began to update the business rules and customer
support features embedded in the system to help prospective industry members submit complete and accurate information on their permit application the first time; these updates will continue in FY 2015. Initial data collected in FY 2014 indicates that as few as 30 percent of applicants filing for a permit correctly complete the application without TTB assistance. By receiving more correct and complete applications, TTB can reduce the time spent in returning applications to customers for correction and reviewing corrected submissions, thus improving the time from application to permit issuance.

TTB is also taking steps to speed its transition to an entirely online processing environment. System enhancements that will begin in FY 2015 will improve the ease of amendment filing for existing Permits Online users and enable approximately 60,000 TTB permittees who originally filed a paper permit application to file for amendments to their permit (e.g., change in control or change in address) electronically through Permits Online. As TTB receives between 15,000 – 20,000 permit amendments annually, this project will result in efficiencies for both TTB and the businesses it serves. These enhancements are necessary to increase the rate of electronic filing by industry and improve processing times.

In addition to the workflow improvements associated with the above system changes, TTB will continue to update its procedures used to screen permit applicants, adding new financial data sources to its risk models and improving its risk criteria to vet applicants for suitability to hold a federal permit in the alcohol and tobacco industries. Increased focus on risk modeling and statistical sampling will help TTB maintain its assurance that it is permitting only qualified applicants, while also managing workloads. With these changes, TTB anticipates achieving sustained reductions to its permit application turnaround time late in FY 2015 following various additional system enhancements that are scheduled for implementation in January 2015.

Increase Customer Satisfaction with TTB Service Delivery
TTB also measures its performance in its permit processing function by surveying the businesses that apply for a TTB permit. TTB monitors the Customer Satisfaction Rate with TTB’s Permitting Process by using an e-mail survey to assess how satisfied businesses are when applying for a permit through Permits Online. This new survey replaces the telephonic survey previously used to gauge customer satisfaction with various services provided by the National Revenue Center, TTB’s service center for permit applicants and taxpayers. In FY 2016, to achieve its performance target of 80 percent, TTB will implement system enhancements and process improvements to improve the customer experience with the system and improve the online guidance available to permit applicants. TTB will also seek to improve the level of service provided to customers seeking live assistance with the permit application process via TTB’s call center.

Ensure Compliance with Importer Permit Requirement
Maintaining lawful operations in the trade of alcohol and tobacco commodities is a principal TTB objective and also supports the Treasury objective to facilitate commerce by ensuring all businesses operate on a level playing field. TTB continues its enforcement of federal permit requirements, targeting entities identified as importing cigarettes and other tobacco products without a TTB permit. Through its measure of Percentage of Importers Identified by TTB as Operating without a Federal Permit, TTB monitors international trade data supplied by CBP to
ensure active importers have a permit on file with TTB. This enforcement activity enables the bureau to identify and take action against those entities engaging in unlawful operations (i.e., those importing in quantities that are indicative of commercial activity). In FY 2014, approximately 15 percent of entities reporting importations of tobacco products had done so without a permit, falling short of its performance target of 12 percent due to the number of personal use importations. TTB has found that the vast majority of unpermitted importers consist of individuals purchasing tobacco products from overseas via the Internet and only a fraction of these entities are importing product at levels that may indicate illegal activity. TTB’s issuance of cease and desist letters to these entities, and appropriate follow up activities, ensured that the responsible parties ended operations or obtained a permit.

TTB discontinued this measure for FY 2015 as it has embedded this effective enforcement approach into its operations and achieved the intended deterrent effect. As tobacco products are often smuggled into the U.S., however, TTB must continue to supplement these data mining efforts and to monitor importer activity through audits, investigations, and other intelligence efforts to detect undeclared importations and address the substantial potential tax losses that they represent. TTB also will continue to focus its enforcement efforts on the importation of processed tobacco to ensure that importers comply with federal law. Processed tobacco remains the subject of TTB enforcement scrutiny, as it is not subject to tax and may be diverted for illegal manufacturing purposes.

**Improve Efficiency and Effectiveness of Alcohol Beverage Label Processing**

TTB protects U.S. consumers by ensuring that the alcohol beverage products offered at retail outlets are properly labeled and comply with federal production standards. This activity also facilitates compliant commerce, a critical Treasury objective, as a TTB label approval is required before an industry member can introduce their products into interstate commerce. TTB expects to meet both objectives through the regulatory enforcement activities under its alcohol beverage labeling program, which include the review of label applications and associated formula submissions to ensure product labels are truthful and accurate and products are formulated and produced with ingredients and processes that do not pose a health risk to U.S. consumers.

In FY 2014, TTB received approximately 142,400 label applications and 14,000 formula applications. The rapid expansion of the alcohol beverage industry combined with market trends toward formulated products have contributed to the high volume of applications. Between 2008 and 2012, the number of applications increased by 14 percent. TTB has implemented policy changes each year since FY 2012 to expand the number and type of changes that industry may make to an alcohol beverage label without submitting a new label application. These changes reduced the volume of submissions by 7 percent between FY 2012 and FY 2014 without compromising TTB’s consumer protection role. Although these labeling program changes were successful in temporarily bending the curve for label applications, annual industry growth is already causing label applications to increase again. Additionally, the volume of formula applications continues to increase, with submissions increasing 11 percent over last year.

These workload challenges have prevented progress in improving service delivery in this area. Lengthy processing times continue to disrupt the business operations of U.S. beer, wine, and spirits producers and importers, posing a potential barrier to commerce. TTB has made minimal
gains in reducing processing times as TTB spent much of the first half of FY 2014 working to recover from the lapse in appropriations in the face of high demand. Given the importance of timely TTB approvals and the negative impact that delays may have on U.S. businesses, TTB is introducing a new measure of the Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards. This measure parallels the new measure of TTB’s permitting process, described previously. TTB combines label and formula applications in this measure given the interdependent nature of these approvals, as a formula approval is often required prior to label approval to substantiate label claims. Heading into FY 2014, TTB met its service standards of 30 days for a COLA and 45 days for a formula approximately 50 percent of the time, with new businesses waiting nearly three months on average from the time they filed for a formula approval to their first release of a new product. As illustrated by the chart below, this represents a significant departure from prior year performance. In FY 2014, TTB has made progress in its label approvals as the impact of the policy updates have taken effect, but performance in timely processing formula approvals has declined, with TTB meeting the 45-day service standard just 15 percent of the time. In June 2014, TTB issued a ruling to eliminate the formula requirement for certain malt beverage products, which should help stem the number of applications from this expanding and highly innovative industry and enable TTB to focus on products that may pose a risk to consumers or federal revenues.

In FY 2016, under the same service standards, TTB maintained a target of 85 percent for the percentage of label and formula applications that meet the established service standards. To meet the performance target, TTB will continue to focus efforts on revising and updating its policies and industry guidance given current performance challenges. In the same vein as the beer formula ruling issued in FY 2014, TTB will examine potential revisions to its formula policies for spirits and wine products, some of which will require rulemaking to implement. TTB also intends to proceed with its regulations modernization project, which will update and streamline the labeling regulations to reflect current TTB policy and modern industry practices.

To achieve its FY 2016 performance target, TTB must also consider how the current industry profile impacts service delivery, as new producers often require extensive assistance during the application process and frequently submit applications that require correction, both of which add to processing times. Available data for formula and label processing indicates that this year
approximately 40 percent of label applications and 30 percent of formula applications required correction, thus adding to the processing burden as each resubmitted application requires additional review. In FY 2015 and FY 2016, TTB will evaluate upgrades to COLAs Online and Formulas Online to increase system checks to ensure applications are complete and accurate to reduce the number that require correction.

TTB will also continue to employ its strategy to increase electronic filing to manage workloads and drive down processing times, as electronic applications are often more complete and accurate than paper submissions. In FY 2014, TTB achieved an electronic filing rate of 94 percent for label applications, exceeding its targeted performance level of 93 percent. The ongoing rise in electronic filing is due to TTB outreach to industry members and system improvements made in response to customer feedback that simplify the filing process for industry members.

TTB proposes to discontinue this measure in FY 2016, and replace it with a new measure of the Percent of Electronically Filed Label and Formula Applications. As TTB seeks to modernize its labeling program, it will focus on both the label and formula approval processes, which both are pre-conditions to market entry for alcohol beverage products. In FY 2016, TTB is targeting a 95 percent electronic filing rate for this new measure, reflecting TTB’s expectation that e-filing rates will remain relatively constant going forward without more significant program changes.

TTB recognizes that, even with high rates of electronic filing, the volume of label applications necessitates consideration of broader efforts to streamline the alcohol beverage label application process. In FY 2016, TTB will invest $1 million in its labeling modernization priority project to streamline the process for reviewing label applications and improve service delivery times. This multi-year effort will involve the introduction of automated system checks and the use of advanced risk models to target non-compliance. With this initial investment in TTB’s labeling modernization priority project, TTB does not anticipate significant performance impacts, as this would mark the formal requirements gathering stage for IT system enhancements and the development of the risk models needed for improved market-based enforcement. Still, the planned system improvements to both COLAs Online and Formulas Online and ongoing industry outreach should help TTB achieve its FY 2016 performance targets for its measures related to e-filing rates and service delivery, which are 95 percent and 85 percent, respectively.
### 3.1.2 – Protect the Public Budget and Performance Plan

**Dollars in Thousands**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriated Resources</td>
<td>$48,541</td>
<td>$50,000</td>
<td>$50,399</td>
<td>$48,939</td>
<td>$45,727</td>
<td>$47,279</td>
<td>$47,279</td>
<td>$48,654</td>
</tr>
<tr>
<td>Reimbursable Resources</td>
<td>$1,898</td>
<td>$2,117</td>
<td>$1,979</td>
<td>$2,464</td>
<td>$2,670</td>
<td>$3,236</td>
<td>$3,371</td>
<td>$3,024</td>
</tr>
<tr>
<td>Transfer from TEOAF-Super Surplus Fund</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$432</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

**Budget Activity Total** | $50,439 | $52,117 | $52,378 | $51,403 | $48,397 | $50,947 | $50,650 | $51,678

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of Electronically Filed Permit Applications (NEW)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>62.0</td>
<td>70.0</td>
<td>79.0</td>
<td>82.0</td>
<td>85.0</td>
</tr>
<tr>
<td>Percent of Permit Applications Processed within Service Standards (NEW)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>61.0</td>
<td>50.0</td>
<td>58.0</td>
<td>85.0</td>
<td>85.0</td>
</tr>
<tr>
<td>Average Number of Days to Process an Original Permit Application for a New Alcohol or Tobacco Business</td>
<td>64.0</td>
<td>65.0</td>
<td>77.0</td>
<td>69.0</td>
<td>81.0</td>
<td>84.0</td>
<td>DISC</td>
<td>DISC</td>
</tr>
<tr>
<td>Customer Satisfaction Rate with TTB Permitting Process (NEW)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>B</td>
<td>80.0</td>
<td>80.0</td>
</tr>
<tr>
<td>Percent of Electronically Filed Label and Formula Applications (NEW)</td>
<td>N/A</td>
<td>N/A</td>
<td>84.0</td>
<td>88.0</td>
<td>90.0</td>
<td>93.0</td>
<td>94.0</td>
<td>95.0</td>
</tr>
<tr>
<td>Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards (NEW)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>83.0</td>
<td>49.0</td>
<td>67.0</td>
<td>85.0</td>
<td>85.0</td>
</tr>
<tr>
<td>Percent of Electronically Filed Certificate of Label Approval Applications</td>
<td>74.0</td>
<td>79.0</td>
<td>88.0</td>
<td>91.0</td>
<td>92.0</td>
<td>94.0</td>
<td>DISC</td>
<td>DISC</td>
</tr>
<tr>
<td>Percentage of Importers Identified by TTB as Operating without a Federal Permit</td>
<td>15.0</td>
<td>15.0</td>
<td>14.0</td>
<td>13.0</td>
<td>11.0</td>
<td>15.0</td>
<td>DISC</td>
<td>DISC</td>
</tr>
</tbody>
</table>

Key: DISC - Discontinued and B - Baseline
Section 4 – Supplemental Information

4A – Summary of Capital Investments

Information Technology

TTB’s Strategic Plan establishes the vision and objectives for the bureau in the business context. TTB’s Information Technology (IT) Strategic Plan is a five-year plan based on the business strategy, which includes the bureau’s mission, vision, goals, and objectives from the IT perspective. This plan charts the course the bureau will follow in the coming years to develop and implement IT solutions that are aimed at streamlining the collection of data, leveraging web technologies, and making the Internet the method of choice for the reporting and exchanging of information. By aligning business and technical strategy, TTB is able to leverage technology to enable the bureau to meet its objectives in the most efficient and cost-effective manner while identifying ways to minimize system redundancy.

TTB has no major IT investments based on the OMB and the Department of Treasury criteria. Several non-major investments, however, directly support the mission, strategy, and day-to-day operations of the bureau. These include:

**TTB Tax System:** This investment consists of several component applications that ensure fair and proper collection of revenue from the industry members for alcohol, tobacco, firearms, and ammunition excise taxes and to ensure compliance with the excise tax regulations.

**TTB Regulatory System:** This investment includes applications that streamline the beverage and nonbeverage alcohol formula approval process and COLA issuance for tax and regulatory compliance.

**TTB General Support Services:** This investment provides TTB users with the infrastructure applications necessary to conduct daily business.

**TTB Enterprise Architecture:** This investment supports strategic management of IT operations (e.g., business process redesign efforts not part of an individual investment, enterprise architecture development, capital planning and investment control processes, procurement management, and IT policy development and implementation) and costs for Chief Information Officer functions.

In addition to leveraging IT to support the mission, strategy, and day-to-day operations of the bureau, TTB supports and maintains strategy alignment with OMB and Treasury through enterprise-wide IT initiatives. These include: Cyber Security; IT Infrastructure; Electronic Identity and Access Management (HSPD-12); Enterprise-wide Contracts and Services; and Program Metrics and Milestones.

**Scientific Equipment for Laboratories**

This investment will enable chemists to provide accurate and reproducible scientific data and laboratory results to support regulatory compliance, tax enforcement, tax classification, rulemaking, and investigations for both the alcohol and tobacco commodities. Laboratory instruments require periodic replacement, as they have finite lifecycles due to use and as
scientific advances continue to evolve. Technologies applied at these laboratories eventually become obsolete and the instruments are not serviceable as vendors stop carrying parts and software. Periodic replacement of the existing technologies is essential for TTB laboratories to remain state-of-the-art and effective to support the bureau’s mission, strategy, and day-to-day operations.

A summary of capital investment resources, including major information technology and non-technology investments, can be viewed/downloaded at: http://www.treasury.gov/about/budget-performance/Pages/summary-of-capital-investments.aspx. This website also contains a digital copy of this document.